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LETTER DATED 4 JUNE 1998 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to transmit herewith the report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait pursuant to paragraph 5 of the Security Council resolution 1143 (1997). The report, covering the Committee's activities in relation to the implementation of resolution 986 (1995) during the second half of phase III after the entry into force of paragraph 1 of resolution 1143 (1997), was adopted by the Committee on 4 June 1998.

(Signed) António MONTEIRO
Chairman
Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

Annex

Report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995)

I. INTRODUCTION

1. The present report is submitted to the Security Council pursuant to paragraph 5 of resolution 1143 (1997) of 4 December 1997, by which the Committee was requested, in close coordination with the Secretary-General, to report to the Council prior to the end of the 180-day period on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995). The report covers the Committee's activities with regard to the implementation of those paragraphs of resolution 986 (1995) during the second 90-day period of phase III, which ends on 2 June 1998, after the entry into force of paragraph 1 of resolution 1143 (1997).

2. The Committee has to date submitted seven reports to the Security Council on the oil-for-food programme, five reports (S/1997/213, S/1997/417, S/1997/692, S/1997/942 and S/1998/187) on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995) and two reports (S/1998/92 and S/1998/336) on the refining and clarifying of the Committee's working procedures in order to expedite the approval process for sending humanitarian supplies to Iraq.

II. SALE OF PETROLEUM AND PETROLEUM PRODUCTS

3. Since the resumption of petroleum sales from Iraq, the export of petroleum from Iraq during phase III has proceeded well, with excellent cooperation among the oil overseers, the independent inspection agents (Saybolt), the Iraqi State Oil Marketing Organization and the national oil purchasers. In view of the delayed resumption in petroleum sales and a serious price drop, the projected $400 million revenue shortfall in the first 90-day revenue objective of $1.07 billion (including the pipeline fee) and its potential impact on humanitarian supplies to Iraq, the Security Council decided in its resolution 1158 (1998) of 25 March 1998 to permit the import of petroleum originating in Iraq, sufficient to produce a sum not exceeding a total of $1.4 billion within the second 90-day period of phase III, beginning on 5 March 1998.

4. Fifty-three contracts, involving purchasers from 18 countries, have been reviewed by the overseers in phase III. Fifty-two contracts were approved and one contract was cancelled by the State Oil Marketing Organization because of the inability of the purchaser to present all supporting documents. The total quantity of oil approved for export under those contracts corresponds to approximately 184.1 million barrels for the 180 days, the highest amount under the oil-for-food programme. All contracts submitted employed the pricing mechanisms approved by the Committee on the recommendation of the overseers.

5. Following the first 90-day period, during which 48 liftings, totalling 53.6 million barrels for a value of $645 million were completed, 102 liftings totalling 114.1 million barrels with an estimated value of $1,300 million was completed in the second 90-day period. Sixteen liftings remain for the second quarter (as at 26 May 1998). Letters of credit opened for each of the liftings were reviewed and confirmed by the overseers upon compliance with the terms and conditions of the contracts approved and consultations with the parties concerned. About 55 per cent of the liftings were made at Ceyhan in Turkey. The largest share of the volume lifted was sold under the pricing formula for the European market. At current prices total revenue for the whole of phase III is estimated at about $2.14 billion (including the pipeline fees).

6. The overseers have continued to advise the Committee on the pricing mechanisms, contract approval and modifications, management of the 90-day revenue objective of $1.07 billion (including the pipeline fees) and other pertinent questions related to export and monitoring, under Security Council resolutions 986 (1995), 1143 (1997) and 1158 (1998).

7. The overseers and the independent inspection agents (Saybolt) deployed to monitor oil loadings and transfers have worked closely to ensure the effective monitoring of the relevant oil installations as well as the liftings, with full cooperation from the Iraqi authorities. In March 1998, the overseers accompanied the group of experts established pursuant to paragraph 12 of Security Council resolution 1153 (1998) on a visit to Iraq to determine, in consultation with the Government of Iraq, the capacity of Iraq to export petroleum and petroleum products sufficient to produce the income referred to in paragraph 2 of resolution 1153 (1998).

8. Pursuant to paragraph 2 of the procedures of the Committee (S/1996/636), 268 national oil purchasers, nominated from 45 countries, are authorized to communicate directly with the overseers.

9. Pursuant to paragraph 14 of the procedures of the Committee, the overseers have continued to report to the Committee on a weekly basis on the contracts considered by them relating to the sale of petroleum originating in Iraq, including the cumulative quantity and approximate value of petroleum authorized for export. So far, 74 such reports have been submitted to the Committee.

III. EXPORT OF HUMANITARIAN SUPPLIES TO IRAQ

10. During the second 90-day reporting period in phase III the Committee has continued to attach high priority to the work of processing contracts for supplying humanitarian goods to Iraq. By 9 March 1998, the oil revenues available for the purchase of humanitarian supplies under phases I and II had been exhausted. Under these circumstances, the Government of Iraq had requested that all medical applications still pending under phases I or II be transferred to phase III, while contracts involving non-health-sector goods could be renegotiated and resubmitted under phase III or subsequent phases. The Secretariat returned the latter category of applications to the missions concerned with advice on how to resubmit them, should the parties so choose.

11. As at 1 June, the committee had received 578 applications under phase III for exports of humanitarian supplies to Iraq. Of the total, 11 were subsequently cancelled, 529 circulated to Committee members for action and 38 were still being processed. Of those sent to the Committee for consideration, 468 were found eligible for payment from the United Nations Iraq Account, totalling approximately $1.04 billion, 17 were placed on hold and 44 were pending under "no-objection" procedure. In respect of the 468 applications which were found eligible for payment from the Iraq Account, 151 letters of approval were released on the basis of availability of funds and the remaining 317 were still waiting for sufficient funds to become available in the Iraq Account.

12. The confirmation of the arrival of goods by the United Nations independent inspection agents (Lloyd's Register) has been going on smoothly at the four entry points into Iraq, at Al-Walid, Trebil, Zakho and Umm Qasr. The Iraqi authorities have accorded the independent agents full cooperation in their work. By the end of May 1998, 1,095 consignments of humanitarian supplies have been confirmed as having arrived in Iraq in total or in partial shipments.

IV. EFFORTS BY THE COMMITTEE TO EXPEDITE DELIVERIES OF HUMANITARIAN GOODS TO IRAQ

13. Pursuant to paragraph 15 of Security Council resolution 1153 (1998), the Committee submitted on 17 April a report (S/1998/336) containing a number of measures it had taken to implement the decisions contained in its report of 30 January (S/1998/92) with regard to the refining and clarifying of its working procedures. Taking into account the relevant observations and recommendations set out in the report of the Secretary-General of 1 February (S/1998/90), the Committee reviewed its work in this area and, as a follow-up to its report of 30 January, formulated a number of steps with a view to enhancing its efficiency in expediting the approving process of contracts. One of them is the adoption of the guidelines and points of understanding on simplified procedure to approve applications for foodstuffs, by which the Committee conferred on the Secretariat the authority to determine whether applications for foodstuffs were in order under those guidelines and points of understanding and to submit them for approval to the Chairman of the Committee in accordance with the conditions set out in the guidelines and points of understanding (S/1998/336, appendix). Those guidelines and points of understanding will come into effect on the day on which the Secretary-General reports to the Security Council pursuant to paragraph 5 of resolution 1153 (1998). Regarding contracts concerning medicines, the Committee will continue its work in this respect. With regard to the issue of reimbursement of the 53 per cent account from the 13 per cent account for joint purchases, the Committee expects to receive soon, for its consideration, the report referred to in paragraph 4 (d) (iv) of its report of 30 January (S/1998/92).

14. In order to expedite the approval process of humanitarian contracts under resolution 986 (1995), all States engaged in the export of humanitarian goods to Iraq were encouraged by a press release dated 2 April 1998 to present applications to the Committee as soon as contracts were concluded, and the attention of their exporters was drawn to the reminder in the approval letters

with a view to ensuring the timely delivery of humanitarian supplies to Iraq by the required delivery date as indicated in the contracts.

V. MATTERS RELATING TO THE KIRKUK-YUMURTALIK PIPELINE AND SHIPMENTS OF SPARE PARTS AND EQUIPMENT TO IRAQ

15. Pursuant to paragraph 2 of resolution 986 (1995), Turkey on 18 March 1998 requested the Committee's approval for payments of the oil transportation fee due to Turkey during the first 90-day period of Iraq's oil exportation under resolution 1143 (1997). A transfer of the agreed pipeline fee to a total amount of $48,285,616.44 was effected on 15 May 1998 with Turkey as the beneficiary.

16. On 6 March 1998, at its 170th meeting, the Committee heard a briefing by the Executive Director of the Iraq Programme on the practical monitoring arrangements concerning shipments of spare parts and equipment from Turkey to Iraq to ensure the medium-term and long-term safety of the Kirkuk-Yumurtalik pipeline. On 5 December 1997 and 25 February 1998, two applications by Germany were submitted to the Committee concerning the supply of spare parts and equipment to the Kirkuk-Yumurtalik pipeline. On 18 May 1998, the Executive Director of the Iraq Programme informed the Chairman of the Committee that the monitoring arrangements were in place and operational. Consequently, the Committee has been able to approve several applications by Turkey, Germany and the United Kingdom of Great Britain and Northern Ireland to ship a total of $24 million worth of spare parts and equipment for the repair and maintenance of the pipeline.

VI. CONCLUSIONS

17. The Committee will make continuous efforts for the effective implementation of all relevant arrangements under the oil-for-food programme; in particular, it will deal with those suggestions contained in its report dated 17 April 1998 (S/1998/336) which may further contribute to enhancing the efficiency of the approval process for humanitarian supplies to Iraq.